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SUBJECT: THE UAE FINANCIAL SITUATION AND THE KUBLER ROSS MODEL

REFS: A) DUBAI 417
B) ABU DHABI 1287
C) ABU DHABI 1270
D) ABU DHABI 1225
E) ABU DHABI 1221
F) ABU DHABI 1141
G) ABU DHABI 1079

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Classified by Ambassador Richard G. Olson for reasons 1.4 (b,d).

11. (U) This is a joint Embassy Abu Dhabi - Consulate General Dubai cable.

12. (C) Summary. The UAE, Dubai in particular, appears to be moving rapidly through the five stages of grieving identified in the Kubler-Ross model. While most Emirati contacts initially claimed that global financial crisis would have little impact on the UAE, it is now obvious they were simply in denial. Officials -- some angrily -- rejected rumors Dubai was bargaining for a bailout from Abu Dhabi. Today, more circumspect interlocutors admit that "federal" (read: Abu Dhabi) support, particularly for Dubai companies, is needed if the UAE economy is to weather the storm and continue strong, if lower, growth. On November 23, it was announced that the two largest mortgage lenders in Dubai would be merged into a federal entity, and a senior Dubai official for the first time outlined publicly the Emirate's financial challenges. While mergers and other indications of economic weakness are likely to continue into 2009, observers believe that increasing government public acknowledgement of the challenges ahead will go a long way to reassuring domestic confidence. End Summary.

13. (C) The shifting response to the global economic downturn in the UAE almost follows the Kubler-Ross model of the five stages of grief: denial, anger, bargaining, depression, and acceptance. In September, most contacts told us they expected UAE development plans would be unaffected by the global slowdown (Ref G). Minister of Foreign Trade Sheikha Lubna Al Qassimi told visiting USTR Schwab that the UAEG was projecting a positive message to instill confidence.

14. (C) However, investors were not assured by the spin and local stock markets continued to decline. Dubai Financial Market Index has fallen to its lowest level since introduction in 2000, while the Abu Dhabi Exchange has lost half its value since July. Analysts argue that the government's failure to publicly acknowledge the likelihood of a slowdown, and Abu Dhabi's perceived willingness to "bailout" debt-ridden Dubai enterprises, is contributing to uncertainty. Interbank lending rates continue to exceed four percent, and major UAE companies admit they are having trouble accessing the capital necessary for expansion plans (septel). Emirati citizens are also feeling the pinch: Deputy Prime Minister Sheikh Hamdan bin Zayed Al Nahyan told the Ambassador that his brother Crown Prince Sheikh Mohammed bin Zayed Al Nahyan has set up a \$30 billion emergency fund for Emirati citizens and entities. Dubai sachem and philanthropist

Juma Al Majid told the Consul General that local charities are witnessing a 20 percent increase in Emiratis seeking support.

15. (C) The continued downturn and crisis of confidence now appears to have spurred a public government response. Dubai mortgage giants Amlak and Tamweel (septel) were merged into the small federal Real Estate Bank on November 23. While the merger was in the works for some time, and rumors circulated that one or the other was bankrupt, the "federal" (read "Abu Dhabi takeover") aspect of the merger indicates officials recognized public federal support was needed. On November 24, Dubai Executive Council member and Chairman of EMAAR Properties (Dubai's largest developer) Mohammed Ali Alabbar gave a major speech to try to dispel rumors Dubai is bankrupt. The first official to publicly address Dubai's financial balance sheet, Alabbar said that the Emirate and related entities owe \$30 billion, while total assets exceed \$350 billion. (Note: Alabbar has been named as Chair of a Dubai committee to monitor and advise on the impact of the financial crisis, along with several other Dubai senior financial figures.)

16. (C) Despite the public claims of strength, all indications are things are likely to get worse before they get better; new property prices in Dubai continue to decline. Square footage prices in EMAAR's new landmark, Burj Dubai, have fallen 33 percent over the last month. Rival Dubai government developers EMAAR and Nakheel are rumored to be in merger talks (NOTE: Rumors EMAAR Chairman Alabbar emphatically denied publicly, even while trying explain that his company's fundamentals are sound despite its stock losing 80% of its value). Reports of the merger of Abu Dhabi-owned Abu Dhabi Commercial Bank and National Bank of Abu Dhabi continue, with one source reporting the merger is already underway. Mashreq CEO Abdul Aziz Al-Ghurair told Ambassador and CG that cross emirate mergers would make more commercial sense (since they would expand customer base); a senior Citi acknowledged this was true, but unlikely given that each Emirate wants to promote its "own" banks. A senior Gulf

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diplomat told the Ambassador that Dubai had offered Abu Dhabi a stake in Emirates Airlines, which had been declined (but rumors persist that a major chunk of Emirates now belongs to Abu Dhabi). Tatweer CEO Muntafiq told Ambassador and CG in early November that Dubai was likely to face a financial "hurricane" in the coming weeks. Both Mashreq (UAE's second-largest bank) Chairman Abdulaziz al Ghurair and leading Dubai expat businessman Abbas Shahdadpuri said that while property rents - a key source of income to Dubai's elite - have so far held, a strong "correction" is coming and prices should begin to drop, perhaps drastically, soon. Al Majid (protect) even made an unprecedented and emotionally delivered request to the Consul General that the USG should encourage Abu Dhabi to support Dubai for the good of the nation.

17. (C) However, even oil-rich Abu Dhabi is showing signs of a slowdown. The COO of Abu Dhabi's flagship Mubadala investment firm told the Ambassador on November 18 that 2009 would be a year of "consolidation." Alabbar told the Ambassador that President Sheikh Khalifa bin Zayed Al Nahyan (who has the final word on financial matters) would institute a slowdown in development. With oil prices continuing to fall, Abu Dhabi will only be more cautious about financial matters.

18. (C) Comment. The impact of the world economic crisis may ultimately be good for the UAE, applying Darwinian selection to non-viable projects and forcing a focus on both quality and sustainability in the country's development. Most observers agree that development was happening too fast and the property market was overheated and wrought by rampant speculation, spurring inflation and revealing fundamental weaknesses in a government only 37 years old. A slowdown will be disappointing to many here who thought they were a model of economic success, but in the long-term the country is likely to benefit from the breather. End Comment.

OLSON